

13th May 2016

Luxury & Consumer Goods

# Salvatore Ferragamo

Price EUR19.69

As expected subdued Q1 sales growth but strong margin improvement!

Fair Value EUR25 vs. EUR25.8 (+27%)

BUY

Bloomberg	SFER IM
Reuters	SFER MI
12-month High / Low (EUR)	30.3 / 18.8
Market Cap (EURm)	3,323
Ev (BG Estimates) (EURm)	3,329
Avg. 6m daily volume (000)	847.5
3y EPS CAGR	9.4%

Salvatore Ferragamo's Q1 2016 sales stood at EUR321m versus the consensus at EUR324m. Sales fell 2.4% organically after +2% in Q4 2015. EBIT grew 4.5% to EUR49m (consensus: EUR44m), implying EBIT margin at 15.2% (14.3% in Q1 15). We have notched down (by less than 2%) our 2016 EBIT estimate and adjusted our FV from EUR25.8 to EUR25. We remain at Buy on the stock.

## ANALYSIS

- Salvatore Ferragamo has reported mixed Q1 figures with sales down 2.4% organically (-1.8% reported), globally in line with the consensus which was at -2% organically. Nevertheless Q1 highlighted some slowdown versus the 2% growth seen in Q4 and 1% over FY 2015. Retail sales fell 4% organically with around 7% same-store growth, while wholesale sales remains stable thanks to the strong performance by travel retail. In Q1, the group closed four DOS (net of openings) to 386. **Group Q1 EBIT grew 4.5% to EUR49m (consensus: EUR44m).** Consequently, Q1 EBIT margin gained 90bp to 15.2%.
- By geographical area, we would highlight the 3.8% revenue decrease in Q1 in **North America** (23% of sales) following -3.2% in Q4 2015. In the US, retail sales outperformed wholesale (affected by poor department store activity) while sales remained almost stable in **Japan** (9% of sales) after +13.2% in Q4 15. Clearly in Japan, following the recent strength of the JPY, Chinese tourists flows are slowing down. **Asia-Pacific** had a subdued performance with a 2% decline despite some encouraging signs in mainland China that have been confirmed since the end of March. Hong Kong remained sluggish with a double-digit sales decline. On the other hand, Korea and SEA were robust. Unsurprisingly, sales in Europe (-4% in Q1) were affected by the recent terrorist attacks.
- Among the group's businesses, the "winner" was **Footwear** (-1%), while **Leather Goods** sales were down 3%. Footwear accounts for 42% sales and Leather Goods 36% of sales.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.0%	2.3%	-17.5%	-9.5%
Pers & H/H Gds	0.9%	7.2%	-4.3%	-1.0%
DJ Stoxx 600	-0.5%	6.6%	-10.6%	-8.9%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	1,332	1,430	1,475	1,585
% change		7.4%	3.1%	7.5%
EBITDA	293	324	340	367
EBIT	245.5	264.7	283.0	312.0
% change		7.8%	6.9%	10.2%
Net income	157.5	172.6	184.0	206.0
% change		9.6%	6.6%	12.0%

	2014	2015e	2016e	2017e
Operating margin	18.4	18.5	19.2	19.7
Net margin	11.8	12.1	12.5	13.0
ROE	33.2	30.0	28.3	27.8
ROCE	26.1	26.2	25.1	25.7
Gearing	8.8	0.8	-1.9	-4.6

(EUR)	2014	2015e	2016e	2017e
EPS	0.94	1.02	1.09	1.22
% change	-	9.6%	6.6%	12.0%
P/E	21.1x	19.2x	18.0x	16.1x
FCF yield (%)	0.3%	3.2%	3.0%	3.5%
Dividends (EUR)	0.42	0.47	0.53	0.60
Div yield (%)	2.1%	2.4%	2.7%	3.1%
EV/Sales	2.5x	2.3x	2.2x	2.1x
EV/EBITDA	11.5x	10.3x	9.7x	9.0x
EV/EBIT	13.7x	12.6x	11.7x	10.5x

## Quarterly P&L summary

EURm	Q1 15	Q1 16	chge (%)
Sales	327	321	-1.8
Gross profit	212	216	2.0
as % of sales	64.8	67.2	+250bp
EBIT	47.0	49.0	-18.5
as % of sales	14.3	15.2	+90bp

Source : Company Data; Bryan Garnier & Co. ests.

- The Q1 profitability improvement (EBIT margin up 90bp to 15.2%) was driven by a strong improvement in gross margin (+250bp) on the back of *i/* a less negative hedging impact, *ii/* manufacturing efficiency and *iii/* fewer discount sales following the higher weight of classic products. This strategy, which can impact the volume trend, is targeted profitability but also high-end brand positioning. Furthermore, Salvatore Ferragamo's group strategy is clearly to focus on improving store productivity as highlighted by virtually stable "sales & distribution costs" in Q1. Globally, total Q1 OPEX grew only 1.3% and was therefore well under control.
- We have notched down our figures, following sales momentum just below our estimates, lowering our EBIT by less than 2%. We expect 2.5% organic sales growth vs +4% previously expected. 2016 EBIT margin is still expected to gain 70bp to 19.2% which should be one of the best performances in our luxury sample. Furthermore, Mr. Eraldo Poletto (ex Furla CEO) will become Group CEO from 2nd August.

## VALUATION

- The SFER share price has lost 9 YTD, gained 3% on 3m and the stock is trading on a 2% premium vs the peer average. We remain at Buy on the stock with a new EUR25 FV vs EUR25.8.

## NEXT CATALYSTS

- H1 results to be reported on 2nd August!



Ant



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